

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Blue Water Area Transportation Commission	County St. Clair County
Audit Date 9/30/04	Opinion Date 11/30/04	Date Accountant Report Submitted to State: 2/11/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave.		City Port Huron	State Mi
		ZIP 48060	
Accountant Signature <i>Stewart, Beauvais & Whipple</i>			Date 2-11-05

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

ANNUAL FINANCIAL STATEMENTS
with
SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED
SEPTEMBER 30, 2004 AND 2003

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

We have audited the accompanying financial statements of the Blue Water Area Transportation Commission as of September 30, 2004 and 2003, and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Blue Water Area Transportation Commission, as of September 30, 2004 and 2003, and cash flows for the years then ended in conformity with accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 30, 2004, on our consideration of the Commission's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Blue Water Area Transportation Commission. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Bawwas & Whipple".

Certified Public Accountants

November 30, 2004

BLUE WATER AREA TRANSPORTATION COMMISSION

Management's Discussion and Analysis

Our discussion and analysis of the Blue Water Area Transportation Commission's financial statements provides an overview of the Commission's financial activities for the fiscal year ended September 30, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets provide information about the activities of the Commission and present a long-term view of the Commission's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, supplementary financial information and supplementary information on federal and state awards.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Commission's overall financial status. These statements report information about the Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Commission's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities, this is one way to measure the Commission's financial health or position.
- The third statement is the Statement of Cash Flows which shows the change in cash and cash equivalents presenting all activity of the Commission on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Also included in this report is Supplementary Information regarding Federal and State Awards, which is required because the Commission receives in excess of \$500,000 of federal revenue.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenditures, and Changes in Fund Net Assets report information about the Commission, as a whole, and about its activities in a way that helps answer the question of whether the Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Commission's net assets and how they have changed. The reader can think of the Commission's net assets (the difference between assets and liabilities) as one way to measure the Commission's financial health or financial position. Over time, increases or decreases in the Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Commission, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

Fund Financial Statements

The Commission has only one fund, the General Operating fund, in which all of the Commission's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

FINANCIAL OVERVIEW

The Commission had net assets of \$8,495,543 at September 30, 2004. This is an increase of \$111,857 over fiscal 2003. Of the net assets at September 30, 2004, \$5,147,309 was a result of capital assets owed by the Commission, with the remaining \$3,348,234 unrestricted. The table below summarizes the net assets at September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Assets		
Current assets	\$ 4,321,240	\$ 4,237,983
Capital Assets	<u>5,147,309</u>	<u>5,013,696</u>
Total assets	<u>9,468,549</u>	<u>9,251,679</u>
Liabilities		
Current liabilities	837,760	867,993
Long-term liabilities	<u>135,246</u>	<u>-</u>
Total liabilities	<u>973,006</u>	<u>867,993</u>
Net Assets		
Invested in capital assets - Net	5,147,309	5,013,696
Unrestricted	<u>3,348,234</u>	<u>3,369,990</u>
Total net assets	<u>\$ 8,495,543</u>	<u>\$ 8,383,686</u>

The increase in net assets of \$111,857 is mainly a result of the purchase of capital assets, funded by grants of \$1,034,736 less the depreciation of \$901,135.

The following table summarizes the changes in net assets for 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Revenue		
Operating Revenue	\$ 2,839,799	\$ 2,533,897
Non-operating Revenue –		
State and Federal Fund	3,488,576	3,213,461
Other	<u>25,693</u>	<u>31,368</u>
	6,354,068	5,778,726
Operating Expenses	<u>7,276,947</u>	<u>6,497,639</u>
Net (Loss) before Capital Grant	(922,879)	(718,913)
Capital Grant	<u>1,034,736</u>	<u>668,883</u>
Net Income (Loss)	<u>\$ 111,857</u>	<u>\$ (50,030)</u>

Of the operating revenues of \$2,839,799 for fiscal 2004, \$2,646,098 or 93% was received from contractual revenue from other municipalities or nonprofit agencies. The other major sources of revenue was \$3,488,576 from federal and state agencies for operations and \$1,034,736 for capital acquisitions.

CAPITAL ASSETS

The Commission has \$5,147,309 invested in capital assets (net of accumulated depreciation) as of September 30, 2004. The investment in capital assets includes, land, buildings, machinery and equipment, office equipment and buses and other vehicles. During the year the Commission purchased approximately \$1,034,748 of which \$970,016 was from the purchase of 8 new buses.

The following table summarizes the capital assets at September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Land	\$ 20,865	\$ 20,865
Land Improvements	25,102	24,652
Buildings	978,133	973,136
Machinery and Equipment	1,587,081	1,552,910
Office Furniture and Equipment	29,550	33,690
Buses and Vehicles	<u>7,997,435</u>	<u>7,108,702</u>
	10,638,166	9,713,955
Accumulated Depreciation	<u>(5,490,857)</u>	<u>(4,700,259)</u>
Capital Assets, Net of Depreciation	<u>\$5,147,309</u>	<u>\$ 5,013,696</u>

LONG-TERM DEBT

The only long-term debt of the Commission was for retrospective insurance adjustments for the insurance pool the Commission is a member of. As of September 30, 2004 the Commission owed \$202,869 which will be repaid over the next three years.

ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Blue Water Area Transportation Commission has a balanced budget for fiscal year 2005 without having to make cuts in service.

Fuel cost increases and cuts in State funding will have a negative impact on Blue Water Area Transportation Commission in 2005.

Blue Water Area Transportation Commission has one large capital building project plus bus purchases over the next two years that may reduce the Commission's unrestricted net assets.

In 2004, a four year operating millage for Blue Water Area Transportation was approved by the City of Port Huron and the Charter Township of Fort Gratiot.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Blue Water Area Transportation Commission, 2021 Cleveland, Port Huron, MI 48060.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 3,044,861	\$ 3,405,231
Accounts receivable	378	2,654
Due from other governmental units/nonprofit agencies -		
State	320,597	86,297
Local	247,717	215,179
Inventory	461,189	417,006
Deposit in insurance pool	177,817	70,177
Prepaid expenses	68,681	41,439
Total Current Assets	<u>4,321,240</u>	<u>4,237,983</u>
Capital Assets:		
Land and land improvements	45,967	45,517
Building	978,133	973,136
Machinery and equipment	1,587,081	1,552,910
Office furniture and equipment	29,550	33,690
Transportation equipment and improvements	7,997,435	7,108,702
	<u>10,638,166</u>	<u>9,713,955</u>
Less - accumulated depreciation	(5,490,857)	(4,700,259)
Total Property and Equipment	<u>5,147,309</u>	<u>5,013,696</u>
Total Assets	<u>9,468,549</u>	<u>9,251,679</u>
LIABILITIES:		
Current Liabilities:		
Accounts payable	30,202	51,006
Accrued salaries	28,370	82,881
Other accrued liabilities	57,359	51,180
Insurance payable	67,623	-
Due to other agencies	142,539	244,304
Due to other governmental units -		
Federal	53,416	9,648
State	89,728	89,728
Local	124,902	109,482
Deferred revenue	243,621	229,764
Total Current Liabilities	<u>837,760</u>	<u>867,993</u>
Long-term Liabilities (less current portion)		
Insurance payable	135,246	-
	<u>973,006</u>	<u>867,993</u>
NET ASSETS:		
Invested in capital assets, net	5,147,309	5,013,696
Unrestricted	<u>3,348,234</u>	<u>3,369,990</u>
Total Net Assets	<u>\$ 8,495,543</u>	<u>\$ 8,383,686</u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Farebox, Ticket and Bus Passes	\$ 158,414	\$ 157,641
Charter	19,305	16,307
Advertising	3,000	3,300
Contractual fares	371,208	353,017
Tax Revenues/Contractual Services	957,459	924,529
Contributions from local agencies	1,317,431	1,072,020
Other	12,982	7,083
	<u>2,839,799</u>	<u>2,533,897</u>
Operating Expenses:		
Administrative	619,998	498,057
Operations	5,237,393	4,746,826
Maintenance	1,238,924	1,064,535
Facilities	180,632	188,221
Total Operating Expenses	<u>7,276,947</u>	<u>6,497,639</u>
Operating Loss	<u>(4,437,148)</u>	<u>(3,963,742)</u>
Non-Operating Revenues:		
Interest Earned	25,168	31,368
Gain on sale of fixed assets	525	-
State & Federal Revenues	3,488,576	3,213,461
Total Non-Operating Revenues	<u>3,514,269</u>	<u>3,244,829</u>
Net Loss before Capital Grants	<u>(922,879)</u>	<u>(718,913)</u>
Capital Grants	<u>1,034,736</u>	<u>668,883</u>
Net Income (Loss)	111,857	(50,030)
Net Assets at beginning of year	<u>8,383,686</u>	<u>8,433,716</u>
Net Assets at end of year	<u>\$ 8,495,543</u>	<u>\$ 8,383,686</u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities:		
Cash receipts from customers	\$ 2,838,814	\$ 2,530,579
Cash payments to suppliers	(3,847,442)	(3,254,540)
Cash payments to employees	(2,675,467)	(2,474,968)
Net Cash Used by Operating Activities	<u>(3,684,095)</u>	<u>(3,198,929)</u>
Cash Flows From Non-Capital Financing Activities:		
Cash received from intergovernmental sources	<u>3,298,044</u>	<u>3,483,542</u>
Net Cash Provided by Non-Capital Financing Activities	<u>3,298,044</u>	<u>3,483,542</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition of property and equipment	(1,034,748)	(669,160)
Gain on sale of assets	525	
Federal & State capital grants	<u>1,034,736</u>	<u>668,883</u>
Net Cash Used by Capital and Related Financing Activities	<u>513</u>	<u>(277)</u>
Cash Flows From Investing Activities:		
Interest	<u>25,168</u>	<u>31,368</u>
Net Cash Provided by Investing Activities	<u>25,168</u>	<u>31,368</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(360,370)	315,704
Cash and Cash Equivalents at beginning of year	<u>3,405,231</u>	<u>3,089,527</u>
Cash and Cash Equivalents at end of year	<u><u>\$ 3,044,861</u></u>	<u><u>\$ 3,405,231</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss for the year	\$(4,437,148)	\$(3,963,742)
Adjustments to reconcile operating loss		
to net cash used by operating activities -		
Depreciation	901,135	825,544
Changes in assets and liabilities -		
Accounts receivable	2,276	6,404
Due from other governmental units - local	(32,538)	40,912
Inventory	(44,183)	(111,291)
Prepaid expenses	(134,882)	95,369
Accounts payable	(20,804)	11,339
Due to other governmental units - local	15,420	(45,038)
Due to other agencies	(101,765)	(73,026)
Insurance payable	202,869	-
Accrued liabilities	(48,332)	20,193
Deferred revenue	<u>13,857</u>	<u>(5,593)</u>
Net Cash Used by Operating Activities	<u><u>\$(3,684,095)</u></u>	<u><u>\$(3,198,929)</u></u>

The accompanying notes are an integral part of these financial statements.

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003

The accounting methods and procedures adopted by the Blue Water Area Transportation Commission conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are a integral part of the Commission's financial statements:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Blue Water Area Transportation Commission (BWATC) was created as a legal and administrative agency pursuant to the Urban Cooperation Act, PA 1967, Ex. Sess., No 7. It is a quasi governmental agency providing public transportation in St. Clair County and surrounding areas.

B. District-Wide and Fund Financial Statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Commission. The Blue Water Area Transportation Commission is accounted for in one business-type fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation -

The Commission's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Commission has selected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets on Equity -

Cash Equivalents -

Cash equivalents are deposits and short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents also consist of investment trusts which are recorded at cost and approximate "fair" value. The Investment Trusts have the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables -

All receivables are shown net of allowance for uncollectible amounts.

Prepaid Items -

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the financial statement.

Inventory -

Inventory consists of parts, tires, oil, and lubricate, diesel fuel, and various other supplies which are stated at lower of average of cost or market.

Capital Assets -

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method, based on the estimated useful service lives of the respective assets. The estimated useful service lives are as follows:

Building	18.5 – 30 years
Machinery and equipment	2 – 10 years
Office furniture and equipment	3 – 6 years
Transportation equipment and improvements	4 – 12 years

Estimates -

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Vacation Pay -

Vacation is earned based upon length of service with BWATC. It must be used within one fiscal year after it is earned or it is forfeited. Under this criteria, all accrued vacation pay recorded at September 30 must be taken prior to the next fiscal year end or is lost. Therefore, all accrued vacation pay at September 30 is reported as a current liability.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits -

The Michigan Compiled Law, authorizes the Commission to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of September 30, 2004, the carrying amount and the bank balance is \$20,010 and \$342,366, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$242,366 was uninsured and uncollateralized. As of September 30, 2003 the carrying amount and bank balance was \$99,557 and \$157,186, respectively, of which \$100,000 was covered by FDIC insurance and the remaining \$57,186 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increases significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents was substantially higher at these peak periods than at year end.

Investments -

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Commission to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

As of September 30, 2004 and 2003, the Commission has \$3,024,851 and \$3,305,674, respectively, invested in Investment Trust Funds which are managed by a bank's trust department. The trust invests primarily in short-term maturity U.S. Government backed or guaranteed securities which are held by the trust in its name. These funds have not been considered to be susceptible to investment risk categories. The investment trust has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 3 - CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2004 was as follows:

	Oct. 1, 2003			Sept. 30, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets, being depreciated:				
Land	\$ 20,865	\$ -	\$ -	\$ 20,865
Capital assets, being depreciated:				
Buildings	973,136	4,997	-	978,133
Land improvements	24,652	450	-	25,102
Machinery and equipment	1,552,910	47,779	13,608	1,587,081
Office furniture and equipment	33,690	5,976	10,116	29,550
Buses and vehicles	<u>7,108,702</u>	<u>975,546</u>	<u>86,813</u>	<u>7,997,435</u>
Total capital assets being depreciated	<u>9,693,090</u>	<u>1,034,748</u>	<u>110,537</u>	<u>10,617,301</u>
Less accumulated depreciation for:				
Buildings	457,210	66,196	-	523,406
Land improvements	16,120	3,361	-	19,481
Machinery and equipment	594,018	177,581	11,891	759,708
Office furniture and equipment	30,057	3,778	10,082	23,753
Buses and vehicles	<u>3,602,854</u>	<u>648,468</u>	<u>86,813</u>	<u>4,164,509</u>
Total accumulated depreciation	<u>4,700,259</u>	<u>899,384</u>	<u>108,786</u>	<u>5,490,857</u>
Total capital assets being depreciated, net	<u>4,992,881</u>	<u>135,364</u>	<u>1,751</u>	<u>5,120,444</u>
Total capital assets, net	<u>\$ 5,013,696</u>	<u>\$ 135,364</u>	<u>\$ 1,751</u>	<u>\$ 5,147,309</u>

NOTE 4 - INTERGOVERNMENTAL - LOCAL OPERATING REVENUES:

City of Port Huron and the Charter Township of Fort Gratiot - These local units levy taxes to provide revenue for the governmental units' contributions for the operation of the Commission. The municipalities' obligation is limited only to the amount the millage raised by each unit.

Charter Township of Port Huron, Burtchville Township and the City of Marysville - These local units have entered into agreements with the Commission to provide services for their respective municipality. The agreement specifies that each of the units shall reimburse the Commission for the cost of providing the services, less any grants or fees received.

NOTE 5 - DEFERRED COMPENSATION:

The Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Once a trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

The Commission has determined that a fiduciary relationship does not exist and as a result the Deferred Compensation Plan is not reported as part of the Blue Water Area Transportation Commission.

NOTE 6 - CONTRACTED TRANSPORTATION SERVICES:

The Blue Water Area Transportation Commission contracts with various municipalities and nonprofit agencies to provide transportation services. Under the agreements the agencies are to pay for all of said services and are reimbursed for a percent of Eligible Operating Expenses and, if applicable, an additional amount for any Nonurban costs. The total cost of providing these services are included in the Commission's Financial Statement, with the difference between the anticipated amount funded with Federal and State grants recorded as a local agency contribution. As of September 30, 2004 and 2003, the Commission has recorded a liability of \$142,539 and \$244,304 to these agencies.

NOTE 7 - MICHIGAN DEPARTMENT OF TRANSPORTATION:

The Michigan Department of Transportation (MDOT) provides funding to the Commission based on a percentage of eligible expenditures, with the actual percentage determined once MDOT receives all the audit reports. In addition, the Commission receives money from the federal government based on a percentage of non-urban eligible expenses.

The Commission has recorded revenues of \$2,626,179 and \$2,401,513 from MDOT for 2004 and 2003, respectively and \$194,163 and \$167,222 from the federal government for 2004 and 2003, respectively.

NOTE 8 - OPERATING LEASE:

The Blue Water Area Transportation Commission has a non-cancelable lease for a parking and storage facility through July 14, 2005 with monthly payments of \$3,039. Rental expense for the years ended September 30, 2004 and 2003 was \$36,468. At the end of the lease, the Blue Water Area Transportation Commission may continue the lease on a monthly basis with the same terms described in the original lease.

NOTE 9 - CONTINGENT LIABILITIES:

As indicated in Note 6, the Commission has contracted with other agencies to provide certain transportation services. The costs of providing these services and reimbursement from MDOT is based on eligible costs incurred and provided by the various agencies. Each agency is subject to an audit by a certified public accounting firm, however the audits have not been completed as of issuance date of the Commission's financial statements. Any adjustment, if any, as a result of these audits could not be determined.

NOTE 10 - LONG-TERM DEBT:

As of September 30, 2004 the Commission owed the Michigan Insurance Transit Pool \$202,869 for retrospective adjustments. The balance will be repaid in annual installments of \$67,623, with no interest.

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

As of October 1, 1999 the Blue Water Area Transportation Commission adopted the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Commission requires no member contributions. The Commission is required to contribute at an actuarially determined rate; the rate for 2004 was from 6.62% to 7.15%. The contribution requirements of plan members and the Commission are established and may be amended by the Commission, depending on the MERS contribution program adopted by the Commission.

Annual Pension Costs -

For fiscal 2004 and 2003 the Commission paid annual pension cost of \$100,837 and \$81,451, respectively for MERS which equaled the Commission's required contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Trend Information

<u>Fiscal Year Ending Sept. 30,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2002	\$ 80,892	100 %	\$ -
2003	81,451	100	-
2004	100,837	100	-

Schedule of Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (AAL) (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll (b-a)/c</u>
12/31/2001	\$ 1,404,913	\$ 1,651,724	\$ 246,811	85 %	\$1,159,778	21 %
12/31/2002	1,528,560	1,915,505	386,945	80	1,310,232	30
12/31/2003	1,725,540	2,170,733	445,193	79	1,376,377	32

NOTE 12 - RISK MANAGEMENT:

General Liability -

The Commission purchases general liability insurance through a commercial insurance carrier with coverages of \$1,000,000 for each occurrence and \$2,000,000 aggregate limits with deductibles of \$1,000, plus an additional umbrella of \$4,000,000.

Buildings and Equipment (other than vehicles) -

Insurance is purchased through a commercial carrier in various amounts with deductibles of \$250 - \$1,000.

Automobile and General Liability -

The Commission is a member of the Michigan Transit Pool (MTP). The MTP is an organization of public authorities and agencies providing public transportation services and is established by an intergovernmental agreement pursuant to the provision of MCL Section 124.1 et seq. The MTP is governed by the MTP Board of Commissioners and in accordance with the bylaws, is comprised of one representation of each member systems.

For 2004, the Pool provides a total coverage of \$6,000,000 per each occurrence for risk associated with the operation of Commission vehicles. The Commission is responsible for all losses falling within its self-insured retention of \$50,000 per occurrence, for liability and \$10,000 for damages, plus their share of pooled losses and administration expenses. The Commission is charged an annual premium to cover the fiscal year cost. The actual transportation costs are allocated to the Commission through retroactive adjustments. The Pool requires members to make a contingency reserve and can also maintain a premium stabilization reserve for potential significant claims and to protect the Pool member from major fluctuation and insolvency. The Commission had approximately \$177,817 on deposit with the Pool at September 30, 2004.

NOTE 13 - SUBSEQUENT EVENT:

In October 2004 the Blue Water Area Transportation Commission finalized an agreement to purchase approximately 11.7 acres of land for \$385,000.

SUPPLEMENTARY FINANCIAL INFORMATION

Port Huron, Michigan

	2004	2003
Farebox, Tickets and Bus Passes	\$ 158,414	\$ 157,641
Charter	19,305	16,307
Advertising	3,000	3,300
Contractual fares	371,208	353,017
Other operating revenue	12,982	7,083
	<u>564,909</u>	<u>537,348</u>
Tax Revenues/Contractual Services -		
City of Port Huron	393,825	406,455
Charter Township of Fort Gratiot	237,494	233,746
Charter Township of Port Huron	152,447	133,256
Burtchville Township	70,052	60,006
City of Marysville	103,641	91,066
	<u>957,459</u>	<u>924,529</u>
Other Revenues -		
Contribution from local agencies	1,317,431	1,072,020
Total Operating Revenues	<u>\$ 2,839,799</u>	<u>\$ 2,533,897</u>

Tax Revenues -			
SBT inventory tax		\$ 14,998	\$ 14,998
State of Michigan Operating Grants -			
New Bus Operating Assistance (Act 51)	- Current Year	2,674,765	2,446,042
	- Prior	(48,586)	(44,529)
		<u>2,626,179</u>	<u>2,401,513</u>
Federal Operating Grants -			
U.S. DOT Operating Grant - Section 5307	- Current Year	653,236	629,728
U.S. DOT Operating Grant - Section 5311	- Current Year	<u>194,163</u>	<u>167,222</u>
		<u>847,399</u>	<u>796,950</u>
Total Non-Operating Revenues - State and Federal		\$ 3,488,576	\$ 3,213,461

BLUE WATER AREA TRANSPORTATION COMMISSION

Port Huron, Michigan

SCHEDULE OF OPERATING EXPENSES FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004				2003
	Operations	Maintenance	General Admin.	Facilities	Total System
Labor -					
Operators' salaries and wages	\$1,043,552	\$ -	\$ -	\$ -	\$ 1,043,552
Other salaries and wages	136,066	455,546	260,450	-	852,062
Fringe benefits -					
Pension	52,643	31,103	17,092	-	100,838
Other	403,599	145,017	83,067	-	631,683
Services -					
Travel and training	-	7,486	12,518	-	20,004
Public information	-	-	37,928	-	37,928
Other services	-	95,190	114,165	12,790	222,145
Purchased transportation	2,386,653	-	-	-	2,386,653
Materials and Supplies Consumed -					
Fuel and lubricants	284,557	-	-	-	284,557
Tires and tubes	25,693	-	-	-	25,693
Vehicle equipment - parts	-	274,307	-	-	274,307
Vehicle equipment - small tools	-	1,315	-	-	1,315
Other materials and supplies	-	16,394	17,380	-	33,774
Utilities	11,034	-	5,059	42,528	58,621
Rent	-	-	-	44,515	44,515
Casualty and Liability Costs -					
Vehicle insurance	230,994	-	-	-	230,994
Facility insurance	-	-	35,252	-	35,252
Miscellaneous Expenses -					
Uniforms	5,101	9,613	-	-	14,714
Building maintenance and repair	-	20,159	-	11,241	31,400
Election services	-	-	18,938	-	18,938
Other miscellaneous expenses	9,034	3,496	14,337	-	26,867
Depreciation and amortization	648,467	179,298	3,812	69,558	901,135
Total Operating Expenses	<u>\$5,237,393</u>	<u>\$ 1,238,924</u>	<u>\$ 619,998</u>	<u>\$ 180,632</u>	<u>\$ 7,276,947</u>
					<u>\$ 6,497,639</u>

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

**DETAILED SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2003**

	2004				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
Expenses:					
Administrative -					
Salaries	\$ 215,657	\$ 19,070	\$ 12,935	\$ -	\$ 247,662
Pension	14,153	1,251	849	-	16,253
Other fringes	68,781	6,082	4,125	-	78,988
Accounting and legal	94,531	8,359	5,670	-	108,560
Telephone	4,189	370	251	-	4,810
Supplies	14,391	1,273	863	-	16,527
Travel and training	10,365	917	622	-	11,904
Public information	31,405	2,777	1,884	-	36,066
Insurance	29,189	2,581	1,751	-	33,521
Depreciation	3,157	279	189	-	3,625
Election services	15,681	1,387	941	-	18,009
Other	11,872	1,050	712	-	13,634
Administration Allocation	(244,791)	(21,646)	(14,682)	131,150	(149,969)
Total Administrative Expenses	<u>268,580</u>	<u>23,750</u>	<u>16,110</u>	<u>131,150</u>	<u>439,590</u>
Operational -					
Drivers' wages	864,080	76,408	51,827	-	992,315
Drivers' pension	33,793	2,988	2,027	-	38,808
Drivers' other fringes	286,822	25,363	17,203	-	329,388
Dispatchers' wages	112,665	9,963	6,758	-	129,386
Dispatchers' pension	9,796	866	588	-	11,250
Dispatchers' other fringes	47,365	4,188	2,841	-	54,394
Gasoline, diesel fuel and CNG	224,016	19,809	13,436	-	257,261
Oil and lubricants	11,603	1,026	696	-	13,325
Tires and tubes	21,274	1,881	1,276	-	24,431
Dispatch telephone	9,136	808	548	-	10,492
Uniforms	4,224	373	253	-	4,850
Vehicle insurance	191,267	16,913	11,472	-	219,652
Purchased transportation	-	-	-	952,270	952,270
Depreciation	536,943	47,480	32,205	-	616,628
Other	7,480	661	449	-	8,590
Total Operational Expenses	<u>2,360,464</u>	<u>208,727</u>	<u>141,579</u>	<u>952,270</u>	<u>3,663,040</u>

2003

Burtchville Township	Agency Rural Expenses	Total Rural Expenses	Charter Service	Total Expenses	Total Expenses
\$ 12,085	\$ -	\$ 12,085	\$ 703	\$ 260,450	\$ 244,061
793	-	793	46	17,092	15,784
3,854	-	3,854	225	83,067	76,520
5,297	-	5,297	308	114,165	49,654
235	-	235	14	5,059	3,676
806	-	806	47	17,380	12,887
581	-	581	33	12,518	13,170
1,760	-	1,760	102	37,928	32,627
1,636	-	1,636	95	35,252	31,526
177	-	177	10	3,812	2,209
879	-	879	50	18,938	-
665	-	665	38	14,337	15,943
(13,718)	164,485	150,767	(798)	-	-
15,050	164,485	179,535	873	619,998	498,057
48,421	-	48,421	2,816	1,043,552	1,004,218
1,894	-	1,894	110	40,812	32,413
16,073	-	16,073	935	346,396	314,409
6,313	-	6,313	367	136,066	126,775
549	-	549	32	11,831	9,025
2,654	-	2,654	155	57,203	58,526
12,553	-	12,553	731	270,545	221,654
650	-	650	37	14,012	16,312
1,192	-	1,192	70	25,693	31,101
512	-	512	30	11,034	15,861
237	-	237	14	5,101	4,172
10,718	-	10,718	624	230,994	218,495
-	1,434,383	1,434,383	-	2,386,653	2,054,770
30,089	-	30,089	1,750	648,467	630,641
419	-	419	25	9,034	8,454
132,274	1,434,383	1,566,657	7,696	5,237,393	4,746,826

	2004				
	Regular Service	Charter Township of Port Huron	City of Marysville	Agency Urban Expenses	Total Urban Expenses
Expenses - (cont'd):					
Maintenance -					
Wages	\$ 377,200	\$ 33,355	\$ 22,624	\$ -	\$ 433,179
Pension	25,754	2,277	1,545	-	29,576
Other fringes	120,077	10,618	7,202	-	137,897
Supplies	2,132	189	128	-	2,449
Parts	227,132	20,085	13,623	-	260,840
Small tools	1,089	96	65	-	1,250
Cleaning supplies	11,442	1,012	686	-	13,140
Travel and training	6,198	548	372	-	7,118
Uniforms	7,960	704	477	-	9,141
Equipment rental	108	10	7	-	125
Repairs and maintenance	16,692	1,476	1,001	-	19,169
Purchased services	76,180	6,736	4,569	-	87,485
Bus shelter maintenance	2,639	233	158	-	3,030
Equipment depreciation	148,462	13,128	8,905	-	170,495
Other	2,787	246	167	-	3,200
Total Maintenance Expenses	<u>1,025,852</u>	<u>90,713</u>	<u>61,529</u>	<u>-</u>	<u>1,178,094</u>
Facilities -					
Utilities -					
Heat	14,528	1,285	871	-	16,684
Electricity	13,856	1,225	831	-	15,912
Water	6,829	604	410	-	7,843
Rent	36,859	3,259	2,211	-	42,329
Building maintenance and repair	9,308	823	558	-	10,689
Security service	10,590	936	635	-	12,161
Building depreciation	57,595	5,093	3,455	-	66,143
Total Facilities Expenses	<u>149,565</u>	<u>13,225</u>	<u>8,971</u>	<u>-</u>	<u>171,761</u>
Total Expenses	<u>3,804,461</u>	<u>336,415</u>	<u>228,189</u>	<u>1,083,420</u>	<u>5,452,485</u>
Less Ineligible Expenses:					
Insurance - Risk Pool	20,700	1,830	1,242	-	23,772
Depreciation	(725,274)	(64,134)	(43,501)	-	(832,909)
Maintenance Services	(9,485)	(839)	(569)	-	(10,893)
Advertising Fees	-	-	-	-	-
Association Dues	(1,975)	(175)	(118)	-	(2,268)
Total Ineligible Expenses	<u>(716,034)</u>	<u>(63,318)</u>	<u>(42,946)</u>	<u>-</u>	<u>(822,298)</u>
Net Eligible Expenses	<u>\$ 3,088,427</u>	<u>\$ 273,097</u>	<u>\$ 185,243</u>	<u>\$ 1,083,420</u>	<u>\$ 4,630,187</u>

					2003
Burtchville Township	Agency Rural Expenses	Total Rural Expenses	Charter Service	Total Expenses	Total Expenses
\$ 21,137	\$ -	\$ 21,137	\$ 1,230	\$ 455,546	\$ 451,868
1,443	-	1,443	84	31,103	24,230
6,729	-	6,729	391	145,017	137,332
119	-	119	7	2,575	8,942
12,728	-	12,728	739	274,307	191,276
61	-	61	4	1,315	49
641	-	641	38	13,819	9,259
347	-	347	21	7,486	8,960
446	-	446	26	9,613	8,489
6	-	6	-	131	333
935	-	935	55	20,159	7,852
4,269	-	4,269	248	92,002	80,023
148	-	148	10	3,188	3,059
8,319	-	8,319	484	179,298	126,828
156	-	156	9	3,365	6,035
<u>57,484</u>	<u>-</u>	<u>57,484</u>	<u>3,346</u>	<u>1,238,924</u>	<u>1,064,535</u>
814	-	814	48	17,546	16,427
776	-	776	46	16,734	17,700
383	-	383	22	8,248	7,015
2,066	-	2,066	120	44,515	47,443
522	-	522	30	11,241	22,172
593	-	593	36	12,790	11,598
3,228	-	3,228	187	69,558	65,866
<u>8,382</u>	<u>-</u>	<u>8,382</u>	<u>489</u>	<u>180,632</u>	<u>188,221</u>
<u>213,190</u>	<u>1,598,868</u>	<u>1,812,058</u>	<u>12,404</u>	<u>7,276,947</u>	<u>6,497,639</u>
1,160	-	1,160	68	25,000	(92,564)
(40,643)	-	(40,643)	(2,363)	(875,915)	(800,318)
(532)	-	(532)	(33)	(11,458)	(6,866)
-	-	-	-	-	(2,494)
(111)	-	(111)	(5)	(2,384)	(963)
<u>(40,126)</u>	<u>-</u>	<u>(40,126)</u>	<u>(2,333)</u>	<u>(864,757)</u>	<u>(903,205)</u>
<u>\$ 173,064</u>	<u>\$ 1,598,868</u>	<u>\$ 1,771,932</u>	<u>\$ 10,071</u>	<u>\$ 6,412,190</u>	<u>\$ 5,594,434</u>

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

**SCHEDULE OF MILEAGE DATA (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	<u>Transit Mileage</u>	<u>Charter Service</u>	<u>New Start</u>	<u>Agency Mileage</u>	<u>Total Mileage</u>
Line-Haul					
1st Quarter	92,177	55	-	-	92,232
2nd Quarter	95,260	-	-	-	95,260
3rd Quarter	94,721	269	-	-	94,990
4th Quarter	<u>96,310</u>	<u>1,343</u>	<u>-</u>	<u>-</u>	<u>97,653</u>
Total Line-Haul	<u>378,468</u>	<u>1,667</u>	<u>-</u>	<u>-</u>	<u>380,135</u>
Demand-Response					
1st Quarter	45,338	-	39,578	296,365	381,281
2nd Quarter	43,328	-	43,799	291,776	378,903
3rd Quarter	43,786	-	41,585	289,824	375,195
4th Quarter	<u>43,597</u>	<u>-</u>	<u>39,713</u>	<u>267,089</u>	<u>350,399</u>
Total Demand-Response	<u>176,049</u>	<u>-</u>	<u>164,675</u>	<u>1,145,054</u>	<u>1,485,778</u>
Total Mileage	<u>554,517</u>	<u>1,667</u>	<u>164,675</u>	<u>1,145,054</u>	<u>1,865,913</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**SUPPLEMENTARY INFORMATION
ON FEDERAL AND STATE ASSISTANCE**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

We have audited the financial statements of the Blue Water Area Transportation Commission as of and for the year ended September 30, 2004, and have issued our report thereon, dated November 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Blue Water Area Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Blue Water Area Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and the Board of Commissioners of the Blue Water Area Transportation Commission, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beaman & Whipple".

Certified Public Accountants

November 30, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Blue Water Area Transportation Commission
Port Huron, Michigan

Compliance

We have audited the compliance of the Blue Water Area Transportation Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The Blue Water Area Transportation Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Blue Water Area Transportation Commission's management. Our responsibility is to express an opinion on the Blue Water Area Transportation Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Blue Water Area Transportation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Blue Water Area Transportation Commission's compliance with those requirements.

In our opinion, the Blue Water Area Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the Blue Water Area Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Blue Water Area Transportation Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management and the Board of Commissioners of the Blue Water Area Transportation Commission, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

November 30, 2004

BLUE WATER AREA TRANSPORTATION COMMISSION
Port Huron, Michigan

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
				Total Expenditures	State Expenditures	Federal Expenditures		
U.S. DEPARTMENT OF TRANSPORTATION:								
Direct Assistance -								
Capital Assistance -	20.507	MI-90-X362	\$ 529,496	\$ 4,307	\$ -	\$ 4,307	\$ 133,189	\$ 392,000
Section 5307		MI-90-X390	938,000	18,907	-	18,907	56,524	862,569
Section 5307		MI-90-X409	416,000	-	-	-	-	416,000
Section 5307		MI-90-X416	189,200	15,687	-	15,687	-	173,513
Section 5307		MI-90-X445	636,000	-	-	-	-	636,000
Section 5307		MI-90-X446	165,600	3,741	-	3,741	-	161,859
Section 5307		MI-03-0168	490,547	4,712	-	-	4,712	440,698
			3,364,843	47,354	-	47,354	630,411	2,687,078
Passed Through Michigan Department of Transportation -								
Capital Assistance -								
Section 5309	20.500	2000-0450/A1	1,730,659	60,768	-	60,768	82,327	1,587,564
Section 5309	20.500	2001-0943	446,603	446,603	-	446,603	-	-
Section 5309	20.500	2001-0944	273,066	273,066	-	273,066	-	-
Section 5311	20.509	2002-0020/Z2	41,164	20,582	-	20,582	20,582	-
MICHIGAN DEPARTMENT OF TRANSPORTATION:								
Capital Assistance -								
Section 5307/CMAQ	N/A	01-0845	132,374	1,076	1,076	-	33,298	98,000
Section 5307/CMAQ	N/A	2002-0020/Z8	159,000	-	-	-	-	159,000
Section 5309	N/A	2000-0801	122,637	1,178	1,178	-	110,175	11,284
Section 5309	N/A	2000-0450/A1	432,665	15,192	15,192	-	20,581	396,892
Section 5307	N/A	2000-0792	913,770	-	-	-	-	913,770
Section 5309	N/A	2001-0943	111,651	111,651	111,651	-	-	-
Section 5309	N/A	2001-0944	68,266	68,266	68,266	-	-	-
Section 5311	N/A	2002-0020/Z2	10,291	5,146	5,146	-	5,145	-
Section 5307	N/A	2002-0020/Z3	234,500	4,727	4,727	-	14,131	215,642
Section 5307	N/A	2002-0020/Z5	47,300	3,920	3,920	-	-	43,380
Section 5307	N/A	2002-0020/Z6	104,000	-	-	-	-	104,000
Section 5307	N/A	2002-0020/Z10	41,400	935	935	-	-	40,465
Total Capital Assistance			8,234,189	1,060,464	212,091	848,373	916,650	6,257,075

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grantor Number	Program or Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Amount Remaining
				Total Expenditures	State Expenditures	Federal Expenditures		
U.S. DEPARTMENT OF TRANSPORTATION:								
Direct Assistance -								
Operating Assistance - Section 5307	20.507	MI-90-X446	653,236	653,236	-	653,236	-	-
Passed Through Michigan Department of Transportation -								
Operating Assistance - Section 5311	20.509	02-0020/Z7	234,384	194,163	-	194,163	-	40,221
MICHIGAN DEPARTMENT OF TRANSPORTATION:								
Operating Assistance - Act 51	N/A	9/30/04	2,626,179	2,626,179	2,626,179	-	-	-
			3,513,799	3,473,578	2,626,179	847,399	-	40,221
Total Federal and State Awards			11,747,988	4,534,042	2,838,270	1,695,772	916,650	6,297,296

Memo Only:

State and Federal Operating Assistance Computation
Based on Operating Expenditures

\$ 6,402,119

See Notes to Schedule of Expenditures
of Federal and State Awards

BLUE WATER AREA TRANSPORTATION COMMISSION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - BASIS OF PRESENTATION:

The Blue Water Area Transportation Commission (BWATC) is accounted for in essentially the same manner as state and local governments' Enterprise Funds. The Commission reports on the accrual basis of accounting for financial statement presentation in accordance with accounting principles generally accepted in the United States of America.

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of Blue Water Area Transportation Commission and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Financial Statements –			
Non-operating revenue – State and Federal	\$ 847,399	\$ 2,641,177	\$3,488,576
Capital Grants	<u>827,791</u>	<u>206,945</u>	<u>1,034,736</u>
	1,675,190	2,848,122	4,523,312
Reconciling Items –			
SBT Inventory Tax not Reported on the Schedule of Expenditures of Federal and State Award	-	(14,998)	(14,998)
Lease Proceeds Reported in Financial Statement as a reduction to Notes Receivable	<u>20,582</u>	<u>5,146</u>	<u>25,728</u>
Total Federal and State Awards	<u>\$1,695,772</u>	<u>\$ 2,838,270</u>	<u>\$4,534,042</u>

NOTE 3 - SUBRECIPIENTS:

Of the expenditures presented in the Schedule of Expenditures of Federal and State Awards, the Blue Water Area Transportation Commission provided awards to subrecipients as follows:

Operating Assistance – Section 5311	CFDA #20.509	\$ 157,252
Operating Assistance – Act 51	N/A	<u>946,413</u>
		<u>\$ 1,103,665</u>

BLUE WATER AREA TRANSPORTATION COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Section I – Summary Of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unqualified

Internal controls over financial reporting:

Material weakness(es) identified? _____ yes x no

Reportable condition(s) identified not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes x no

Reportable condition(s) identified not considered to be material weaknesses? _____ yes x none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A – 133, Section 510(a)? _____ yes x no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #20.500	Cluster - Federal Transit Capital Improvement Grant
CFDA #20.507	Federal Transit Capital and Operating Assistance Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes _____ no

Section II - Financial Statement Findings:

There were no financial statement findings.

Section III - Federal Award Findings and Questioned Costs:

There were no Federal Award Findings and Questioned Costs required to be reported by Section 510(a) of OMB Circular A-133.

Section IV - Prior Year Findings and Questioned Costs:

There were no prior year Findings and Questioned Costs.